

Message Text

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ACTION EB-08

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01 ERDA-05 CEA-01

DODE-00 FPC-01 H-01 INT-05 L-03 NSC-05 PM-04 OES-06

SS-15 STR-04 ACDA-07 /108 W

-----050226Z 061138 /75-61

R 041833Z FEB 77

FM AMEMBASSY TEGUCIGALPA

TO SECSTATE WASHDC 5682

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E.O. 11652: N/A

TAGS: EPET,EINV, HO

SUBJECT: UPDATE ON TEXACO REFINERY PROBLEM

REF: TEGUCIGALPA 00481

SUMMARY: IN A MEETING THIS WEEK WITH ECONOMIC MINISTRY OFFICIALS, TEXACO REGIONAL OFFICERS PRESENTED A REQUEST FOR RENUMERATIVE PRICING, EXPLAINED WHY THEIR LOCAL REFINERY COULD NO LONGER ABSORB INCREASING CRUDE OIL COSTS AND DISCUSSED ALTERNATIVES. THEY FEEL THEY IMPARTED A BETTER UNDERSTANDING OF THE REFINERY'S PROBLEMS, THEREBY REMOVING SUBSTANTIAL HEAT FROM WHAT WAS A TENSE CONFRONTATION SITUATION. ECONMIN DIAZ EXPRESSED ASSURANCE THAT PRODUCT INCREASES CORRESPONDING TO JANUARY OPEC CRUDE OIL HIKE SHOULD BE POSSIBLE. TEXACO EXPECTS RESUMPTION OF TALKS BY MID-FEBRUARY FOLLOWING GOH REVIEW OF ITS UPDATED REQUEST. END SUMMARY.

1. PRIOR TO MEETING FEBRUARY 2 WITH MINISTRY ECONOMY TO PRESENT A NEW REQUEST FOR LOCAL PRICE INCREASES, TEXACO (CORAL GABLES) MARKETING OFFICERS JOHN JOHNSON AND WALTER CRAWFORD CALLED ON THE EMBASSY. THEY WERE ACCOMPANIED BY W.W. MACDONALD
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AND ROBERT DIECKGRAFE, SENIOR TEXACO OFFICERS RESIDENT IN HONDURAS. MR. JOHNSON OUTLINED SITUATION AS FOLLOWS. REFINERY WAS BEING SUBJECTED TO ECONOMIC STRANGULATION BY GOH UNWILLINGNESS TO SET ADEQUATE PRICES FOR REFINERY PRODUCTS. THE PARENT COMPANY NO LONGER HAS FLEXIBILITY TO ABSORB CONSEQUENT LOSSES, SO EACH OPERATING AFFILIATE MUST BE VIABLE. REFTEXSA, TEXACO'S HONDURAS REFINERY HAS INCURRED \$22 MILLION OPERATING LOSS, AND

OUTSTANDING OPIC-INSURED \$10 MILLION CONSTRUCTION LOAN IS \$3.3 MILLION IN ARREARS. IN MEETING WITH ECONMIN, JOHNSON PLANNED TO EXPLAIN SERIOUSNESS OF FINANCIAL SITUATION AND DISCUSS ALTERNATIVES. HE HOPED TO MAKE TEXACO'S POSITION CLEAR WITHOUT CONFRONTATION OR QUOTE LOWERING THE BOOM UNQUOTE.

2. AMBASSADOR BECKER CITED CHARGES AGAINST TEXACO OF ECONOMIC AGGRESSION AND OTHER PRESSURE TACTICS IN EXAGGERATED PRESS COVERAGE OF RECENT DEVELOPMENTS. BECAUSE THIS OVERHEATED ATMOSPHERE APPEARS DUE IN PART TO A PERSONAL CLASH OF ECONMIN VICENTE DIAZ WITH MACDONALD, AMBASSADOR BECKER SUGGESTED MACDONALD NOT PARTICIPATE IN JOHNSON'S MEETING WITH DIAZ. JOHNSON LATER INFORMED EMBOFF THAT THIS ADVICE WAS FOLLOWED.

3. FOLLOWING A THREE-HOUR MEETING WITH DIAZ AND OTHER MINISTRY OFFICERS, JOHNSON TOLD EMBOFF THAT HE WAS ABLE TO CLEAR UP MANY MISUNDERSTANDINGS ABOUT RECENT REFINERY ACTIONS AND TO IMPART A BETTER UNDERSTANDING OF THE NEED FOR RENUMERATIVE PRICING. HE SAID DIAZ ADVISED THAT THE PETITION WOULD BE STUDIED BY A NEW COMMISSION ESTABLISHED LAST WEEK TO REVIEW THE REFINERY'S OPERATIONS, AND THAT PRICE INCREASES ACCOUNTING FOR OPEC HIKE OF JANUARY WERE LIKELY TO BE APPROVED. DIAZ INDICATED THAT THIS REVIEW SHOULD BE COMPLETED NEXT WEEK AND THAT HE WOULD INVITE JOHNSON BACK BY FEBRUARY 11 FOR FOLLOW-UP TALKS.

4. FURTHER INDICATION OF WILLINGNESS OF GOH TO RESOLVE PRICE-SQUEEZE PROBLEM WAS REVEALED IN AD HOC CONVERSATION WHICH AMBASSADOR BECKER AND USAID DIRECTOR JOHN ROBINSON HAD WITH FINMIN PORFIRIO ZAVALA AT CONCLUSION OF THEIR MEETING ON AN AID LIMITED OFFICIAL USE

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MATTER TODAY. ZAVALA VOLUNTEERED FOR USG USE ONLY THE FOLLOWING INFORMATION REGARDING TEXACO'S REQUEST FOR A ONE-TIME IMPORTATION OF FINISHED PETROLEUM PRODUCTS TO REBUILD RESERVES AND ALLOW TEMPORARY REFINERY CLOSURE FOR CLEANING AND REPAIRS (SEE PARAG. 2 REFTEL). WITHOUT EXEMPTION FROM IMPORT AND CONSUMPTION TAXES ON THIS SHIPMENT, TEXACO WOULD LOSE \$489,000 DUE TO LOW INTERNAL PRICES AND TAXES. THE GOH PROPOSES TO REIMBURSE TO TEXACO THE \$294,000 IMPORT TAX PORTION OF THIS POTENTIAL LOSS FROM THE STABILIZATION FUND GENERATED BY A \$.24 PER GALLON TAX FOR THIS PURPOSE ON RETAIL SALES. THE REMAINING \$195,000 WOULD BE LIQUIDATED BY NOT REQUIRING TEXACO TO PAY THIS LEVY ON THIS QUANTITY OF PRODUCTS SOLD. THUS, IT WOULD BE RECOUPERATED IN INTERNAL SALES. THE AMBASSADOR EXPRESSED APPRECIATION FOR THIS CONFIDENTIAL INFORMATION AND RELATED TO ZAVALA THAT JOHNSON AND CRAWFORD WERE PLEASED WITH THE RECEPTION RECEIVED THIS WEEK FROM THE GOH AND WITH PROGRESS ACHIEVED IN RESOLVING PRICE-SQUEEZE.

COMMENT: WE BELIEVE THAT JOHNSON'S VISIT AND A RECENT LETTER

FROM THE REFINERY MANAGER TO DIAZ FULLY EXPLAINING REFINERY
ACTIONS OF LAST TWO WEEKS HAVE HELPED TO DEFUSE THE SITUATION.
ANNOUNCEMENT THIS WEEK OF GUATEMALA'S APPROVAL OF 13 PCERCENT
INCREASE IN GASOLINE PRICES FOR TEXACO REFINERY THERE ALSO MAY
HAVE HELPED RELIEVE GOH CONCERN OVER POSSIBLE PUBLIC REACTION
TO ANOTHER INCREASE IN DOMESTIC FUEL PRICES HERE. TEXACO
MIGHT FIND ENCOURAGEMENT IN THE FINANCE MINISTER'S WILLINGNESS
TO EMPLOY PETROLEUM EQUALIZATION FUND TO AVERT LOSS ON THE ONE
TIME SHIPMENT. TEXACO FREQUENTLY PROPOSED SUCH A SOLUTION TO
OVERALL PROBLEM. GOH RECEIVES 44 PERCENT OF REVENUE FROM
RETAIL SALES, OVER HALF OF WHICH IS LEVY FOR THIS FUND.
REFINERY REPORTEDLY RECEIVES ONLY ABOUT 38 PERCENT OF SALES
PRICE.
END COMMENT.
BECKER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REFINERIES, PRICES
Control Number: n/a
Copy: SINGLE
Sent Date: 04-Feb-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TEGUCI00581
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770041-0873
Format: TEL
From: TEGUCIGALPA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770270/aaaackdl.tel
Line Count: 130
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 66bc97cb-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 TEGUCIGALPA 481
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3403200
Secure: OPEN
Status: NATIVE
Subject: UPDATE ON TEXACO REFINERY PROBLEM
TAGS: ENRG, EINV, HO
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/66bc97cb-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009